Commonwealth Holiday Inns of Canada Limited · Annual Report 1971

CANADA

ONTARIO

Thunder Bay
Kenora
Windsor
Chatham
Sarnia
London South
London Downtown
Kitchener
Hespeler-Galt
Brantford
Hamilton
St. Catharines
Oakville
Toronto Don Valley
Toronto Yorkdale
Toronto East
Toronto West
Toronto Airport
Oshawa
Barrie
Huntsville
Sudbury
Peterborough
Kingston
Ottawa — City Centre
Ottawa — Downtown

ALBERTA

Edmonton

NOVA SCOTIA

Sydney

MICHIGAN

Pontiac
Port Huron

CARIBBEAN

Barbados
St. Lucia
Antigua
Grenada

EUROPE

UNITED KINGDOM

Plymouth

Commonwealth Holiday Inns
of Canada Limited

Annual Report 1971

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REGISTRAR AND TRANSFER AGENT

The Registrar for the Common Shares is Canada Permanent Trust Company at its principal offices at Toronto, Montreal, London, Winnipeg, Regina, Calgary and Vancouver. The Transfer Agent for the Common Shares is The Royal Trust Company at its principal offices at Toronto, Montreal, London, Winnipeg, Regina, Calgary, and Vancouver.

President's Message

David Rubinoff

On behalf of the Board of Directors, I am pleased to report on the operating results and growth of your Company for the year ended October 31, 1971.

Operating revenue for the year increased by 29% to $43,023,663, and net earnings by 30% to $1,726,265. These results are gratifying in light of economic conditions which prevailed throughout the year. The Canadian hotel industry generally experienced moderate declines in occupancy levels during 1971, which adversely affected revenues and profit. By contrast, the hotel industry in the United States suffered its severest decline since the depression years of the 30's. Recent statistics show a reversal of this trend, and a marked increase in hotel occupancy in the United States. I am confident that Canadian hotels will shortly experience a similar return to levels which prevailed prior to 1971, provided that the disruption of air service by strikes does not continue.

I am pleased on your behalf to welcome the Honourable John P. Robarts as a member of the Board of Directors of the Company. Mr. Robarts was Prime Minister of the Province of Ontario for ten years prior to his retirement from public office in 1971. His years of experience in both the public and business communities will add immeasurably to the strength of the Board.

The past year saw the addition of seven new Holiday Inns to the operations of the Company, bringing the number at year end to 34 and the total rooms available to 5,754. The new 504-room Holiday Inn of Ottawa — City Centre was opened during February of this year and has gained early acceptance by the many visitors to our nation's capital. As this report is written, your Company has 12 Inns under construction, with a total of 3,566 rooms. Five of these Inns, with more than 1,470 rooms, are scheduled to open during the remainder of the current financial year. Included is the Toronto Civic Square Inn, which, with 750 rooms, will be the largest Holiday Inn in the world-wide system.

I am confident that your Company will again experience a year of sustained growth in 1972, and that new records will be established in both sales and earnings. On behalf of the Directors, I wish to thank the many employees of the Company, whose dedicated service and efforts have contributed substantially to making 1971 a year of profitable growth.

D. Rubinoff

CHAIRMAN OF THE BOARD
AND PRESIDENT

February 1972

Financial Highlights Year Ended October 31, 1971

(Canadian Currency)

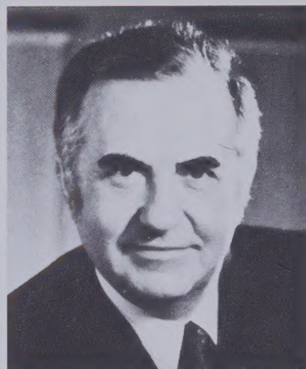
	1971	1970	Change
SALES	**$43,023,663**	$33,258,870	+29%
EARNINGS BEFORE TAXES	**$ 3,351,265**	$ 2,804,927	+19%
Per Dollar of Sales	**7.8¢**	8.4¢	
PROVISION FOR INCOME TAXES*	**$ 1,625,000**	$ 1,475,000	
Per Dollar of Sales	**3.8¢**	4.4¢	
NET EARNINGS	**$ 1,726,265**	$ 1,329,927	+30%
Per Dollar of Sales	**4.0¢**	4.0¢	
EARNINGS AVAILABLE TO COMMON SHAREHOLDERS	**$ 1,708,965**	$ 1,276,871	+34%
CASH FLOW FROM OPERATIONS**	**$ 5,499,835**	$ 4,620,120	+19%
WORKING CAPITAL	**$ 1,996,390**	$ 715,779	
ADDITIONS TO PLANT AND EQUIPMENT	**$18,460,338**	$10,953,791	
AVERAGE COMMON SHARES OUTSTANDING	**4,005,147**	2,420,073	
TOTAL ASSETS AT YEAR END	**$66,242,716**	$49,571,132	+34%

*No income taxes were payable in 1971 and 1970, although full provision was made for taxes on a deferred basis.

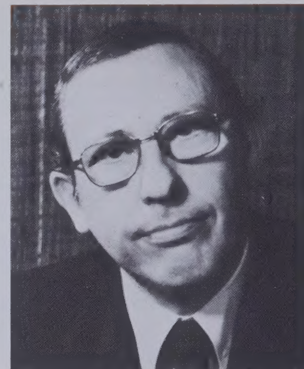
**Cash flow consists of net earnings before dividends on preference shares plus non cash charges for depreciation, amortization and deferred taxes.

Note: Cash flow per share cannot be calculated on a comparable basis for these two years because of the transactions involving the purchase of warrants for cancellation referred to in note 8 to the Financial Statements. Earnings per share are reported in the Consolidated Statement of Earnings which should be read together with note 14.

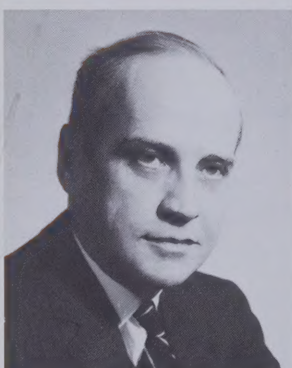
4,000 preference shares which were outstanding at October 31, 1970 have been converted into 400,000 common shares.



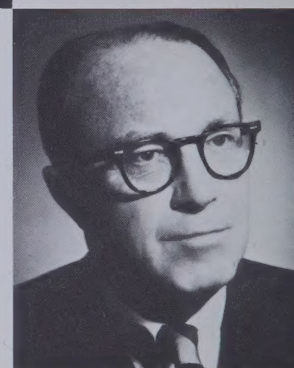
David Rubinoff



Ernest B. Fletcher



Albert E. Shepherd, Q.C.



Frederick W. P. Jones

Directors

David Rubinoff*
Chairman of the Board and President, Commonwealth Holiday Inns of Canada Limited, London, Ontario

Albert E. Shepherd, *†
Senior Vice President, Commonwealth Holiday Inns of Canada Limited, Barrister and Solicitor, Partner of Shepherd, McKenzie, Plaxton, Little & Jenkins, London, Ontario

David B. Weldon*†
Chairman of the Board, Midland-Osler Securities Limited, London, Ontario

Frank W. Adams
Senior Vice President Finance & Treasurer, Holiday Inns, Inc., President, Commercial Services, Division, Holiday Inns Inc., Memphis, Tennessee

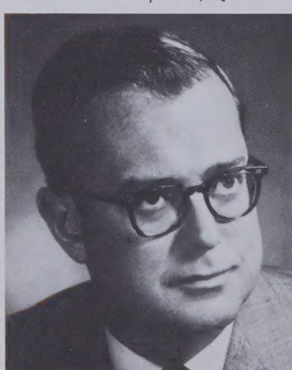
Ernest B. Fletcher*
Executive Vice President and General Manager, Commonwealth Holiday Inns of Canada Limited, London, Ontario

Frederick W. P. Jones*†
Professor, School of Business Administration, University of Western Ontario, London, Ontario

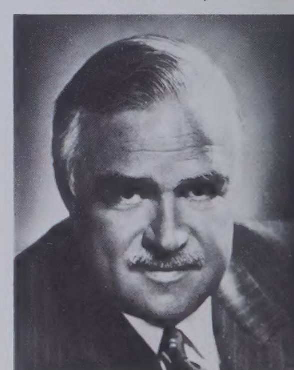
Hon. John P. Robarts,
Barrister and Solicitor, Partner of Stikeman, Elliott, Robarts and Bowman, Toronto, and Robarts, Betts, McLennan and Flinn, London, Ontario

Ludwick M. Clymer
Executive Vice President, Holiday Inns Inc., Memphis, Tennessee

* Member of the Executive Committee
† Member of the Audit Committee

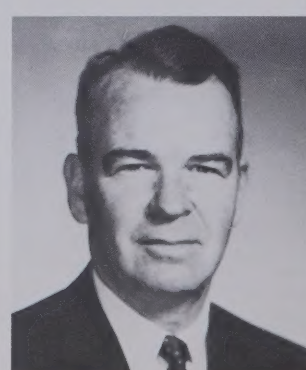


David B. Weldon



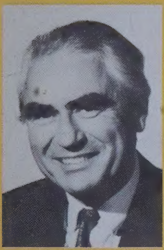
Hon. John P. Robarts, P.C., Q.C.

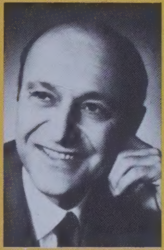
Frank W. Adams



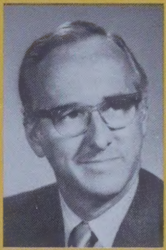
Ludwick M. Clymer

Other Officers And Executives


Philip Eprile, President, Associated Innkeepers Supply Company and Philip Eprile Associates Limited


Edward C. Campbell Senior Vice President, Operations Administrator


Ronald M. Thomas Senior Vice President, Finance and Corporate Planning


Andre R. Pettigrew Group Vice President and Treasurer


Robert A. Rubinoff Vice President, Director of European Operations


Raymond R. Yelle Vice President, Caribbean Finance and Development


W. Harvey Gleason Vice President and Controller

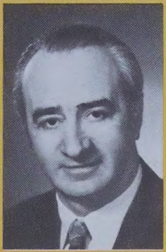

John C. Logan Vice President, Director of Projects Development


Charles H. King Vice President and Secretary


Jeanette M. Stevens Assistant Secretary


Charles A. Cline Assistant Vice President, Director of Personnel


Hans Demuth Assistant Vice President, Director of Food and Beverage


Mundi Gilbert Assistant Vice President, Projects Development


James A. Havers Assistant Vice President, District Director


Anthony Malloy Assistant Vice President, Director of Internal Audit


John B. Pleasence Assistant Vice President, District Director


Theodore Smits Assistant Vice President, Director of Construction and Maintenance


Charles Thomas Assistant Vice President, Director of Data Processing


George Zaritzky Assistant Vice President, Director of Financial Planning


Robert J. Adley Director of Marketing Europe


Ian M. Marshall Director of Advertising

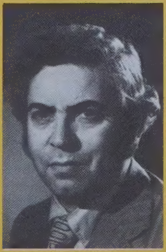

John C. Peskett Director of Sales

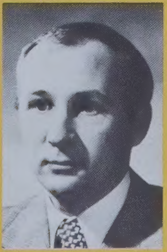

Lewis Blum District Director


Rene Murray District Director


Claude Lefebvre Manager, Caribbean Operations


Joseph Whitfield Manager, U.K. Operations


Philip M. Barnett Divisional Vice President, General Manager, Associated Innkeepers Supply Company and Philip Eprile Associates Limited


Herman Sarwi Assistant Vice President, Associated Innkeepers Supply Company and Philip Eprile Associates Limited

The Industry, Its Future And Commonwealth Holiday Inns

Following the second world war, the automobile superceded the train as a primary means of transportation for businessmen and the vacationing family. Due to rising living standards and income levels, family travel came into its own. Modes of transportation changed and the hotel/motel industry began to exhibit development potential. The small individually owned motels, built in ever-increasing numbers, began to give way to chain operations with larger properties representing a combination of owned, leased and franchised units. This increase in travel by road led to a boom in highway building which in turn accelerated the demand for overnight accommodation. As a consequence, motor hotels providing a high standard of cleanliness and service enjoyed meteoric growth. Towards the end of the sixties, the downtown hotel once more began to regain some of its former prominence adding conveniences and amenities which its suburban competitor had pioneered, such as free parking, swimming pools and other recreational facilities.

It is predicted that the next decade will see a continued decrease in the number of independents in the industry, unable to attract the volume of traffic required to maintain economically viable operations. Those organizations with managerial and financial strengths will be able to thrive and take advantage of the surge in prosperity forecast for the years to come.

Probably the most significant factor that will affect the lodging industry in the 1970's will be a change in supply and demand which will strongly benefit hotel and motel operators. Increasing personal disposable income, more leisure time, and low-cost packaged tours will continue to increase travel expenditures. By contrast, rapidly rising construction costs and deeper market penetration by chain operators will probably slow down growth in the total number of rooms available.

Hotels, in a marked similarity to airlines, possess a high fixed cost structure, with a high percentage of the incremental room revenue above the break-even point flowing to pretax earnings. It is specifically this leverage factor, along with a favourable supply and demand position, which will enable those chains with superior management to increase earnings substantially.

In the last ten year's the five fundamental developments which have helped to expand the travel market significantly, enabling increased segments of the population to participate in this market, have been:

An increase in personal disposable income which amounted to over 113% during the 1960's — approximately an 11% annual growth rate. Concurrently, there has been an increase in the number of families earning $10,000 or more. In Canada, for example, in 1969, 18% of families had an income of $10,000 or more, compared with about 5% in 1960.

Growth of the 25-35 age group in the last ten years of about 10%. Latest estimates indicate that by 1975, this group will have increased 20% over 1969 figures, and by 1980, the increase will be in the region of 45%.

This will undoubtedly be very significant to the travel industry and, consequently, to the lodging industry. This rapidly increasing younger generation, maturing during the jet age will, it is anticipated, have a greater predilection for travel than any previous one.

An increase in leisure time. Presently, over 50% of the labour force with ten years' service receive at least three weeks' vacation, compared with no more than 20% in 1960. Also, an increasing number of companies are now introducing a four-day work week.

Continued growth in the volume of business generated from group meetings during the last ten years. The growth in jet travel and the increased need and desire to communicate and pool knowledge have been largely responsible for this. As this increases, and as incomes rise and more people combine business with pleasure, a growing number of national organizations will utilize such meetings.

The introduction of the packaged tour has been extremely important in bringing vacation trips to distant areas within the financial reach of an ever-increasing segment of the population. This type of tour has taken advantage of the lower group fares initiated by airlines and by the rise of supplemental (non-scheduled) airlines. The largest potential market, however, will be that of the dormant non-traveller, one which has yet to be tapped.

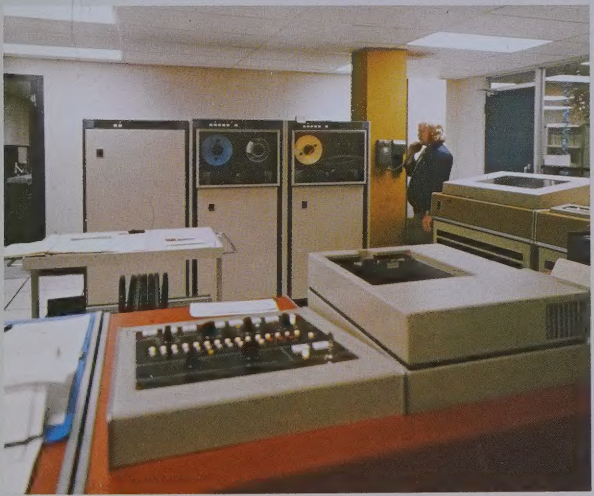
A recent survey revealed that:

a) 50% of the population **had never** stayed overnight in a hotel or a motel.

b) 52% of the population **had never** travelled more than 200 miles from their homes.

c) 45% of the population **did not** go away on vacation.

Commonwealth Holiday Inns of Canada Limited, through its association with Holiday Inns, Inc., and as Canada's largest hotel chain, is prepared for the challenges of the markets of the future and the demands that they will make. In London, Ontario, where the Company's Head Office is situated, operations are directed by a centralized management team using advanced operational and financial control systems. Budgets are prepared in detail by appropriate revenue and cost centres. Detailed monthly statements for each Inn, including budget figures and a prior year's comparison, are produced following each month-end, utilizing the latest computers. On a two-week basis, a tabulation by Inn of sales and labour costs in each revenue category provides a control over staff utilization. This enables management to keep abreast of operational problems as they develop, and facilitates immediate and effective action to correct them. Most disbursements, including payrolls, are administered from this one central source. Reports are forwarded to Head Office daily, covering revenue receipts by category, occupancy levels and average room rates. The records and accounts at each Inn are audited by the internal auditors of the Company on a continuing basis.



New centralized computer facilities at London Executive Offices.

The Canadian Inns are under the immediate supervision of four District Directors, who report to the Senior Vice President of Operations. In Europe and the Caribbean, resident vice presidents provide the same managerial supervision for the Inns under their control. Each is responsible for the preservation of high standards of service, physical condition and cost control, in addition to the overall supervision of staff. All Inns are visited regularly by a District Director, and, in addition, Holiday Inns, Inc. has its own staff which inspects each Inn in the system at least four times a year.

Regular meeting of Company Executives.

Like other companies engaged in a complex industry, Commonwealth Holiday Inns management team encompasses a broad spectrum of experience and skills, which are channelled into all areas of corporate endeavour. These range from the acquisition of funds to finance the continuing expansion programs of the Company, site selection of future Inns, project development, interior design, recruitment and training, maintenance of a high standard in food and beverage operations, and to the pursuit of high levels of occupancy through an aggressive sales force employing planned marketing and advertising programs.

The success of your company in meeting the future challenges of the industry is attested to by its rapid growth since the first Inn was opened ten years ago. This success is directly attributable to:

- An assured standard of quality
- The provision of accommodation tailored to the needs of the business traveller and the vacationing family.
- The amenities provided in each of our Inns which include a high standard of accommodation and cuisine, television in each room, entertainment lounges, indoor and outdoor swimming pools, meeting rooms to accommodate all sizes of groups, 24-hour telephone services free parking and many others.

Holiday Inn of Don Valley, Toronto, Canada.

- The incorporation into its Inns of facilities which recognize the subtle blending of the commercial aspect of the hotel industry with those of a resort. Current designs of the Company's Inns provide flexibility in the use of space in order to keep abreast of the ever-changing role of hotel premises in society.
- The association with the world's largest and most successful hotel chain, Holiday Inns, Inc., which provides assistance and expertise in all areas of operation.
- Through the International Association of Holiday Inns, a large source of funds, far in excess of that available to other large hotel chains or groupings, used to provide aggressive and innovative marketing and advertising support on a system basis.
- The Holidex System which provides free reservations to any other Holiday Inn. This system is based upon centralized computer facilities situated at Holiday Inns, Inc. in Memphis, Tennessee. These connect each Inn and office in the world-wide Holiday Inn system, making it the world's largest private computer facility. Requests for accommodation are received from over 1,380 Inns, from sales offices serving over 50 major cities and via trans-atlantic cable from Brussels. Satellites are employed to complete the network to other European countries and Hawaii. Through the Holidex System, each Inn becomes a reservation office for any Inn and provides a substantial portion of the room sales.
- The market provided by more than 200,000,000 people living to the south of us, where more than 1,300 Holiday Inns are in operation, and where the name has become a household word. This steady flow of Holiday Inn guests from the south has provided a large contribution to Canada's growing tourist industry.

An appetizing Holiday Inn pastry tray.

The Holiday Inn chain as a whole has gained a degree of consumer acceptance not unlike that accorded to other well-known leaders within their product categories.

A recent review of Fortune Magazine's top 500 corporations reveals a number of key characteristics attributable to

Indoor swimming pool — Holiday Inn of Don Valley, Toronto, Canada.

highly successful companies exhibiting a better than average record of growth —

- Cohesive business direction
- Operations in growth markets
- Above average return on equity
- Recognized end products or services
- Leadership position in the industry
- A record of product innovation or service development.

The corporate profile of Commonwealth Holiday Inns of Canada Limited coincides with this outline of successful management characteristics. Your Company is the largest franchise holder in the Holiday Inns system, and with recent additions to its chain, has become Canada's largest hotelier. This position has been attained by maintaining flexibility, decisiveness and skillful innovation.

The ability to exercise foresight and to recognize and capitalize on good opportunities has given your Company an advantage over its competitors in becoming established in new locations and markets. With Inns in operation, or planned in the near future in the major business and resort markets across Canada, in Europe and in the Caribbean, the Company is in a good position to benefit from the forecasted growth in these areas. The regional reports which follow indicate how these plans have progressed during the past year.

Clarkson, Gordon & Co.
Chartered Accountants

291 Dundas Street, London 14, Canada

Halifax Saint John Quebec Montreal Ottawa
Toronto Hamilton Kitchener London Windsor
Thunder Bay Winnipeg Regina Calgary
Edmonton Vancouver Victoria

Arthur Young, Clarkson, Gordon & Co.
United States—Brazil

Telephone 672-6100 (Area Code 519)

AUDITORS' REPORT

To the Shareholders of
Commonwealth Holiday Inns
of Canada Limited.

We have examined the consolidated balance sheet of Commonwealth Holiday Inns of Canada Limited and its subsidiaries as at October 31, 1971 and the consolidated statements of earnings, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants.

London, Canada.
January 3, 1972.

COMMONWEALTH HOLIDAY INNS OF CANADA LIMITED

and its subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended October 31, 1971

(with comparative amounts for 1970)

	1971	1970
Sales	**$43,023,663**	$33,258,870
Earnings from operations before charges as set out below	**$11,975,567**	$ 9,321,115
Rent — leased Inns	**3,614,064**	2,653,631
Depreciation and amortization — *note 2*	**1,790,884**	1,488,792
Amortization of deferred expenses — *note 4*	**392,874**	361,589
Interest on long term debt	**2,826,480**	2,012,176
	8,624,302	6,516,188
Earnings for year before taxes on income	**3,351,265**	2,804,927
Taxes on income — deferred — *note 7*	**1,625,000**	1,475,000
Consolidated net earnings for year	**$ 1,726,265**	$ 1,329,927
Earnings per share — *note 14:*		
On average outstanding shares	**$0.43**	$0.53
On average outstanding shares as adjusted to give retroactive effect to transactions referred to in *note 8*	**$0.36**	$0.32

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended October 31, 1971

(with comparative amounts for 1970)

	1971	1970
Balance beginning of year	**$ 3,391,382**	$ 2,114,511
Add consolidated net earnings for year	**1,726,265**	1,329,927
	5,117,647	3,444,438
Deduct dividends paid on preference shares	**26,000**	53,056
Balance end of year	**$ 5,091,647**	$ 3,391,382

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

Year Ended October 31, 1971

	1971
Balance beginning of year	**Nil**
Transfer of the excess of the stated value of former no par value common shares outstanding at date of conversion over par value of new common shares — *note 8(a)*	**$ 1,847,462**
Excess over par value of common shares issued during year — *note 8(a):*	
Upon exercise of share purchase warrants	**3,303,760**
Upon issuance and sale of shares to underwriters (net)	**5,989,928**
Upon issuance of shares to employees	**6,412**
	11,147,562
Deduct cost of share purchase warrants purchased for cancellation — *note 8(b)*	**7,000,000**
Balance end of year	**$ 4,147,562**

(See accompanying notes to the consolidated financial statements)

COMMONWEALTH HOLIDAY INNS OF CANADA LIMITED
and its subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended October 31, 1971
(with comparative amounts for 1970)

	1971	1970
Working capital beginning of year	$ 715,779	$ 183,514
Source of funds:		
Operations —		
Consisting of:		
Consolidated net earnings for year	1,726,265	1,329,927
Add or (deduct) —		
Deferred income taxes	1,625,000	1,475,000
Depreciation and amortization	2,183,758	1,850,381
Other non-cash items	(35,188)	(35,188)
	5,499,835	4,620,120
Gain on foreign exchange futures	240,964	
Mortgages and other long term loans	12,077,841	10,844,110
Minority interest in subsidiary company	501,865	
Sale of shares — net before reduction of deferred taxes of $52,000 — *note 8(a)*	11,726,243	5,513
Sale of fixed assets (net of long term bank loan repaid at date of sale)	1,883,115	66,236
	31,929,863	15,535,979
Application of funds:		
Purchase of fixed assets (including Inns under construction)	18,460,338	10,953,791
Investments	98,756	1,275,206
Deferred expenses	1,116,530	1,502,490
Franchises	148,787	114,400
Reduction of long term debt	3,798,841	1,104,771
Dividends	26,000	53,056
Purchase for cancellation of share purchase warrants — *note 8(b)*	7,000,000	
	30,649,252	15,003,714
Increase in working capital	1,280,611	532,265
Working capital end of year	$ 1,996,390	$ 715,779

(See accompanying notes to the consolidated financial statements)

COMMONWEALTH HOLID

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ASSETS

	1971	1970
Current:		
Cash	$ 2,870,457	$ 2,123,587
Accounts receivable	2,569,302	2,134,917
Construction costs recoverable from a lessor less bank loans repayable therefrom of $935,000	610,800	.
Inventories — at the lower of cost or net realizable value	895,021	598,965
Prepaid expenses	940,595	538,292
	7,886,175	5,395,761
Fixed — at cost — *notes 2 and 13:*		
Land	3,743,227	2,237,756
Buildings and leasehold improvements	32,818,622	19,070,739
Furniture and equipment, roadways, swimming pools, etc.	16,620,139	11,857,873
	53,181,988	33,166,368
Less accumulated depreciation	6,070,975	4,417,756
	47,111,013	28,748,612
Major renovations (net of amortization to date of $305,135 in 1971 and $148,828 in 1970)	974,479	632,712
	48,085,492	29,381,324
Inns under construction — at cost (of which land amounts to $2,328,260 in 1971; $1,737,061 in 1970)	4,361,717	9,855,914
Investments — at cost — *note 3*	1,373,962	1,275,206
Deferred costs and franchises:		
Opening and development cost — net — *note 4*	2,996,620	2,442,785
Cost of borrowing — net — *note 4*	504,918	335,097
Franchises — Holiday Inns, Inc. — at cost	1,033,832	885,045
	4,535,370	3,662,927
	$66,242,716	$49,571,132

(See accompanying notes to the consolidated financial statements)

NNS OF CANADA LIMITED
laws of Ontario)
liaries

BALANCE SHEET

, 1971
ounts for 1970)

LIABILITIES

		1971	1970
Current:			
Accounts payable and accrued charges		$ 4,424,303	$ 3,309,700
Taxes payable		356,387	149,616
Long term debt payable within one year		1,109,095	1,220,666
		5,889,785	4,679,982
Long term debt — *note 5*		38,725,915	32,332,548
Deferred gains — *note 6*		997,786	482,745
Deferred income taxes — *note 7*		5,583,000	4,010,000
Minority interest in subsidiary company		501,865	
Shareholders' equity:			
Capital — *note 8*			
Authorized:			
Nil 6½% cumulative redeemable convertible sinking fund preference shares of $200 par value each (4,000 shares in 1970)			
7,425,000 common shares of $1 par value each (7,025,000 common shares of no par value in 1970)	$7,425,000		
Issued and fully paid:			
Nil preference shares (4,000 shares in 1970)			800,000
5,305,156 common shares (2,427,013 shares in 1970)		5,305,156	3,874,475
		5,305,156	4,674,475
Contributed surplus — *note 8*		4,147,562	
Retained earnings — *note 9*		5,091,647	3,391,382
		14,544,365	8,065,857
		$66,242,716	$49,571,132

On behalf of the Board

D. Rubinoff, Director

Albert E. Shepherd, Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 1971

1. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the company, its wholly-owned subsidiaries, Associated Innkeepers Supplies Limited, Allied Innkeepers (Bermuda) Limited, Commonwealth Holiday Inns (Alberta) Limited and Philip Eprile Associates Limited and its partly-owned subsidiary (65%) Allied Innkeepers of Trinidad and Tobago Limited. This latter company was formed to construct a new Inn to be leased to the company upon completion. As at October 31, 1971 the Inn was under construction.

The accounts of certain branches of the company are carried in other than Canadian currency and certain debt is payable in other than Canadian currency. These are included in the accompanying consolidated financial statements in Canadian dollars on the following basis:

Current assets and current liabilities	— at the rate of exchange in effect as at the balance sheet date
Non-current assets and non-current liabilities	— at the rates of exchange generally in effect when the assets were acquired and the liability incurred
Sales and expenses	— at the average rate of exchange for the year

2. Fixed assets

A major portion of the real estate and furniture and equipment is pledged to secure mortgages and other long term debt.

For accounting purposes depreciation is computed on a straight-line basis at the following annual rates:

Building and leasehold improvements	*2½%
Paving	4%
Furniture and equipment	9%
Swimming pools	10%

*A higher rate is applied to leasehold improvements if, at the time of the expenditure, the remaining term of the lease plus one renewal period is less than 40 years.

The cost of major renovations, net of amortization, have been included with fixed assets in the accompanying consolidated financial statements (previously included with deferred expenses) and the 1970 figures relating thereto have been adjusted to reflect this change. The company's policy of amortizing such costs during the first sixty months commencing with the second month following completion of the program for each Inn remains unchanged.

3. Investments

This consists of a 39% interest in shares of a company formed to construct a future Inn in Guadeloupe and debentures of a company which owns and leases back the company's operating Inn in St. Lucia as follows:

Shares (re Guadeloupe Inn)	$ 150,706
Debentures (re St. Lucia Inn)	1,223,256
	$1,373,962

4. Deferred costs

These consist of:

	Costs incurred to date	Amortization to date	Unamortized balance October 31 1971	1970
Deferred opening and development costs	$4,201,713	$1,205,093	$2,996,620	$2,442,785
Deferred cost of borrowing	772,041	267,123	504,918	335,097
	$4,973,754	$1,472,216	$3,501,538	$2,777,882

Deferred expenses are amortized as follows:

Opening and development costs	— During the first sixty months commencing with the month following the opening of each Inn
Cost of borrowing	— During the term of the respective borrowing

5. Long term debt

Long term debt outstanding at October 31, 1971 consists of:

	Payable within one year	Amount
(a) Real estate mortgage payable:		
8½% - 12½% first and second mortgages due on varying dates from 1973 to 1989 ..	$ 544,576	*$25,641,132

*Payable in currencies other than Canadian currency
Cdn. $ 935,566 — U.S. $ 876,942
Cdn. $3,000,000 — D.M. 10,737,294

	Payable within one year	Amount
(b) Chattel mortgages payable:		
11% - 12% chattel mortgages due on varying dates from 1972 to 1973 and sundry lien notes due in varying amounts to 1977	289,519	908,901
(c) Sinking fund debentures payable:		
7½% Senior debentures maturing December 1, 1979 (sinking fund payment of $75,000 in 1972 and $100,000 in each of the years 1973 to 1979 and $50,000 on maturity)	75,000	825,000
7% Series "A" subordinated debentures maturing June 30, 1974 (sinking fund payments of $200,000 in each of the years 1972 and 1973 and $200,000 on maturity)..	200,000	600,000
6% Series "B" subordinated debentures maturing June 30, 1979 (sinking fund payments of $40,000 in each of the years 1975 to 1978 and $40,000 on maturity) ...		200,000
	275,000	1,625,000
(d) Secured notes payable:		
6⅞% secured notes maturing June 30, 1991, repayable annually at an amount equal to 5.03234% of the highest aggregate principal amount of notes issued commencing December 31, 1974 (secured by a first mortgage and first floating charge on certain property) ($8,500,000 U.S.)		8,659,977
(e) Due to bankers:		
Term bank loan due as to $1,000.000 in November 1972 and as to $2,000.000 in May 1974 (secured by a $3,000,000 floating charge debenture and the assignment of accounts receivable)		3,000,000
	$1,109,095	39,835,010
Less payable within one year		1,109,095
		$38,725,915

Instalments of long term debt payable each year for the next five years are:

1972 — $1,109,095
1973 — 3,374,921
1974 — 8,031,045
1975 — $ 844,145
1976 — 4,327,774

6. Deferred gains

This consists of:

Gain on sale and leaseback of one of the company's Inns during 1969 (net of amortization to date of $80,642 including $35,188 in 1971 — $35,188 in 1970)	$447,557
Gains on foreign exchange	550,229
	$997,786

The gain on the sale and leaseback of the particular Inn is being transferred to income each year on a basis which will amortize the total gain over the term of the applicable lease.

The gains on foreign exchange arose in 1971 on the repayment of certain long term debt due in U.S. funds and on the sale of West German D.M. futures purchased by the company as a hedge against possible loss on the future repayment of certain long term debt in that currency. These gains have been deferred as the cost in Canadian funds of repayment of the long term debt in foreign currencies is subject to uncertainty.

7. Income taxes

In the accompanying consolidated statement of earnings, the income tax provision has been based on the income for the year as reported in the accounts. The company is entitled to claim certain land acquisition costs as an expense for income tax purposes but such costs will not be written off in the accounts of the company except in the event of the

sale of the particular property. Such costs are regarded as permanent differences between accounting and taxable income and accordingly no deferred income tax provision is required in respect thereof. For 1971 this has resulted in a reduction in the income tax provision of $145,000. Similar reductions in prior years were not material.

In addition, as the company claims for income tax purposes deferred expenses as incurred and capital cost allowances in excess of depreciation, no taxes on income for the year are currently payable and accordingly the entire income tax provision of $1,625,000 has been deferred.

As a result of claiming the share issue expenses incurred in 1971 for income tax purposes, the income tax reduction of $52,000 relating thereto has been applied to reduce the balance of deferred income taxes as shown in the accompanying consolidated balance sheet.

8. Capital

(a) During the year ended October 31, 1971, 4,000 preference shares were converted into 400,000 common shares under conversion privileges attaching to those preference shares.

Following the conversion of the preference shares referred to above, the company filed Articles of Amendment changing (1) the 7,425,000 common shares of no par value authorized as at the date of filing into 7,425,000 common shares of $1 par value each and (2) the 2,827,013 common shares of no par value issued as at the date of filing into 2,827,013 common shares of $1 par value each. The excess of the stated value of the former no par value shares outstanding at the date of conversion over the par value of the new common shares amounting to $1,847,462 was transferred to contributed surplus.

The following common shares of $1 par value each were issued during the year for cash as follows:

Number of shares	Net cash received	Allocated to: Capital	Allocated to: Contributed surplus
By exercise of share purchase warrants 1,627,468 common shares	$ 4,931,228	$1,627,468	$3,303,760
By issue and sale to underwriters 850,000 common shares	* 6,839,928	850,000	5,989,928
By exercise of employee options 675 common shares	7,087	675	6,412
2,478,143 common shares	$11,778,243	$2,478,143	$9,300,100

*After deducting expenses of share issue of $103,447 less income taxes (deferred) relating thereto of $52,000.

(b) As at October 31, 1971, additional common shares are reserved as follows:

For issuance at $2 per share under share purchase warrants expiring June 30, 1978 issued to holders of the 7½% senior debentures	250,000
For issuance to employees at $10.50 per share	17,375
For issuance to Holiday Inns, Inc. at $8 per share under share purchase warrants exercisable from November 1, 1972 and expiring November 1, 1984	50,026
For issuance to holders of secured notes at $8 per share under share purchase warrants exercisable from November 1, 1972 and expiring November 1, 1984	*200,000
	517,401

*Under the terms of the agreement covering the issuance of these share purchase warrants, 41,250 were issued during 1970 and the balance of 158,750 share purchase warrants were issued during 1971.

During 1971, under an agreement with the holders of the 3,254,937 share purchase warrants to purchase common shares at $3 per share (which were outstanding at the end of the previous year) 1,627,468 of such share purchase warrants were exercised and the balance of 1,627,469 of such share purchase warrants were purchased for $7,000,000 cash and cancelled.

9. Restrictions on dividends

The company has covenanted in the trust indentures securing its sinking fund debentures not to (a) declare any dividends on any of its shares (other than stock dividends); (b) redeem or retire any class of its capital stock; (c) make any other distribution to the holders of its shares unless after giving effect to such action, such payment will not be in excess of consolidated net earnings of the company and its subsidiaries for the period from (a) March 31, 1966 with reference to the senior debentures and (b) May 31, 1964 with reference to the Series A subordinated debentures to the date of such payment. Also, the company may not declare any dividends if the tangible junior capital (as defined in the trust indentures) is less than $1,750,000.

As at October 31, 1971, the consolidated net earnings (as defined) from March 31, 1966 and May 31, 1964 exceeded amounts declared as dividends since those dates by $3,401,000 and $3,480,000 respectively and tangible junior capital (as defined) exceeded $1,750,000 by $6,700,000.

10. Commitments

The cost to complete Inns under construction as at October 31, 1971 has been estimated at $28,000,000 extending into 1973 no portion of which is reflected in the accompanying consolidated financial statements. It is the intention to finance this program from long term loans already arranged, from internal resources and from other financing currently being negotiated.

By reason of the insolvency of the general contractor engaged to construct two of the company's Inns, mechanics liens have been registered against such Inns, the settlement of which may result in additional cost to the company. In the opinion of the company's solicitor such additional costs, if any, will not exceed $354,000 after all adjustments have been made. No liability is reflected in the accompanying consolidated financial statements for the possible additional costs in connection with the properties referred to above.

11. Long term leases and fees

The company has entered into agreements to lease properties which are operated as Inns for periods varying from 7 to 41 years at total minimum rentals for the remaining terms of the leases of approximately $86,000,000. Total minimum fixed rentals per year as at October 31, 1971 approximate $3,800,000. In the case of certain leases, increased rentals may be payable if Inn revenues exceed specified amounts. Certain leases provide the company with options to purchase the leased properties. The company has also entered into agreements to lease additional properties generally for 25 year periods to be operated as Inns in the future at annual minimum rentals of approximately $2,600,000.

Under its agreements with Holiday Inns, Inc., the company is required to pay royalties and assessments for advertising and other services which currently amount to approximately $1,000,000 annually. It has also entered into miscellaneous equipment leases which require annual rental payments of approximately $415,000.

Under the terms of the agreement relating to the 6⅞% secured notes, the company has agreed not to permit minimum annual lease obligations on real property located in Canada and continental United States to exceed 12% of the net book value of the company's fixed assets located within these two countries. As at October 31, 1971, these minimum annual lease obligations were less than 12% of the net book value of the applicable fixed assets.

12. Statutory information

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers amounted to $394,000 for the year ended October 31, 1971 ($297,000 in 1970). This remuneration includes directors' fees of $13,736 for 1971 and $5,926 for 1970.

The liability in respect of past service pension costs not provided for in the accompanying consolidated financial statements as at October 31, 1971 amounts to $555,217. This amount is to be paid in annual instalments of $31,576 over the next eighteen years. During 1971 past service pension costs totalling $31,572 were charged to expense. All other pension costs are provided and paid for in the year in which such costs are incurred.

13. Appraisal value of real estate

Land and buildings included in fixed assets in the accompanying consolidated balance sheet at a net book value of $32,923,000 have an estimated appraisal value, on a net replacement cost basis of $43,666,000 based on an appraisal by Metropolitan Trust Company during 1971. The above amounts do not take into account values relating to lease properties, furnishings or values attributable to the Holiday Inn franchises.

14. Earnings per share

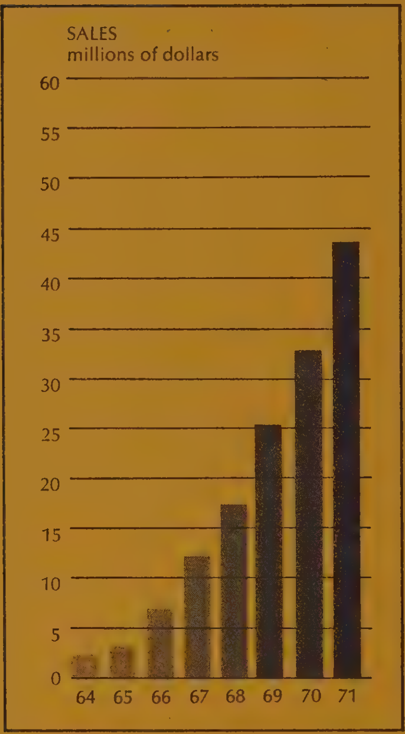
Earnings per outstanding share have been calculated on the weighted average of common shares actually outstanding during the year.

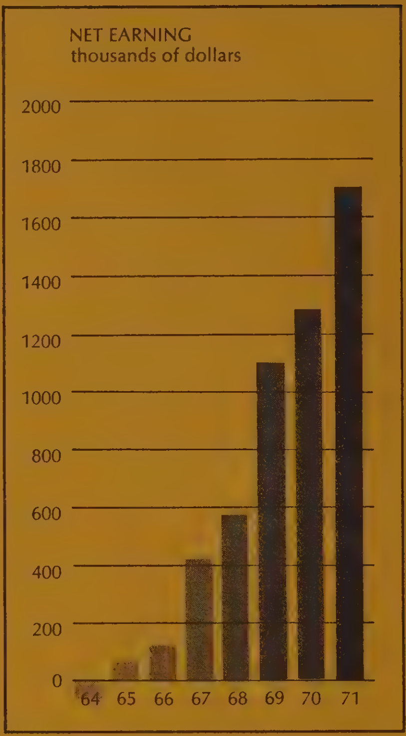
Adjusted earnings per share have been calculated for each of the years 1971 and 1970 after giving retroactive effect to the share transactions referred to in note 8(a) and 8(b) as follows: (a) the assumed conversion of preference shares into common shares as of the beginning of 1970 fiscal year with the consequent elimination of preference share dividends in each of the years; (b) the assumed issue of 1,627,468 common shares for $4,931,228 upon the exercise of a similar number of share purchase warrants and the assumed issue of an additional 850,000 common shares for $6,839,928 (net of expenses relating thereto) as of the beginning of the 1970 fiscal year with earnings being imputed on the proceeds from the assumed date of issue at a rate of 8% per annum net of income taxes and (c) the assumed purchase for cancellation of 1,627,469 share purchase warrants for $7,000,000 as of the beginning of the 1970 fiscal year with an imputed cost for the funds required for the assumed date of purchase for cancellation at a rate of 8% per annum net of income taxes.

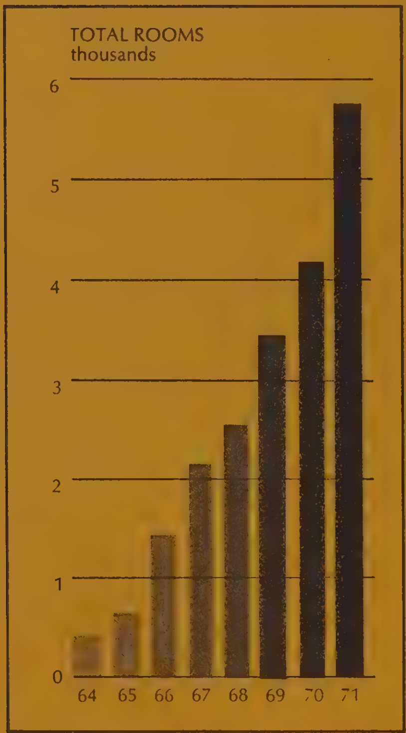
The net imputed earnings under (b) and (c) above have been calculated in the case of 1971 from the beginning of the year to April 19, 1971 (the date upon which the proceeds under (b) above were received and the funds under (c) were paid out) and in the case of 1970 for the entire year and amount to $174,449 for 1971 and $380,608 for 1970.

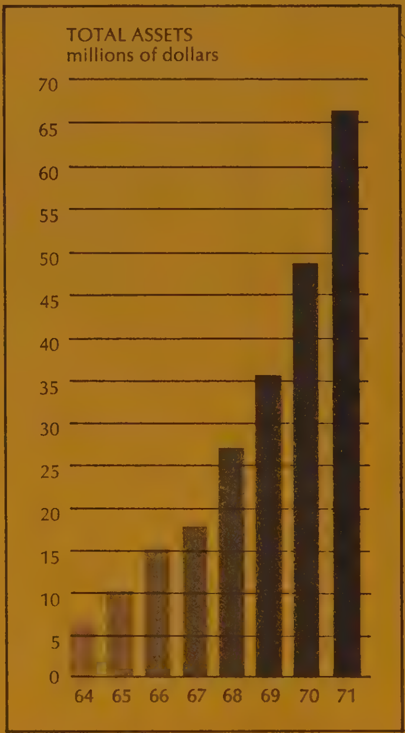
Fully diluted earnings per share have not been shown as the effect on earnings per share of the exercise of the outstanding 250,000 share purchase warrants to purchase common shares at $2 per share would not be material and the exercise of any of the other outstanding share purchase warrants or options (after giving effect to the imputed income which would arise therefrom) would have the effect of increasing earnings per share.

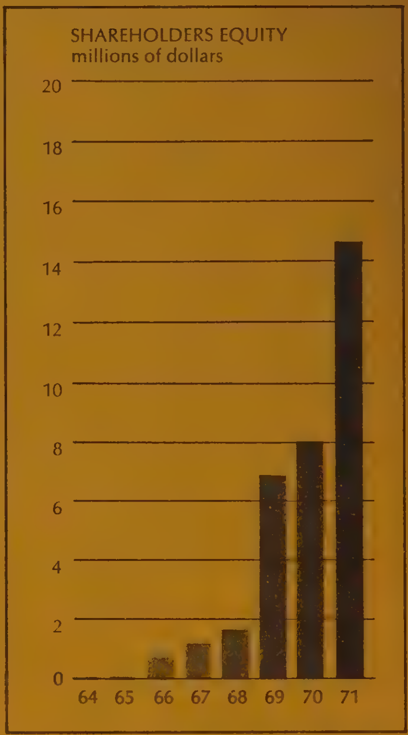
EIGHT YEARS OF GROWTH











Canada

Edward C. Campbell, Senior Vice-President

The past year has witnessed acceleration in the rate of expansion of Commonwealth Holiday Inns across Canada. A total of 1,242 rooms were added to operations with the opening of five new Inns and additions to three existing Inns. At year end, in Canada alone, a further 2,040 rooms were under construction, more than 1,600 of which are scheduled to open during the 1972 financial year.

Extensive research and planning has been undertaken during the past several years in respect to potential sites throughout Canada on which the Company could profitably expand. As a result, franchises have been purchased for 10 additional sites in Canada — exclusive of those now operating or under construction. Presently, the Company holds or has under commitment a total of 45 franchises in Canada.

Significant increases were achieved by the Canadian Inns during 1971 in both revenue and operating profit. A major contribution to these increases has been made by the theme lounges and specialty restaurants recently incorporated into the operation of new and existing Inns. Continued public acceptance of Holiday Inns has been maintained and enhanced through the Company's program of continually upgrading and renovating its properties. This program ensures a standard consistent with the demands of today's travelling businessman and tourist. Indoor swimming pools, sauna baths, games rooms, tennis courts and coloured television are but a few of the items which have been added.

The successful operation of any business is directly related to the personnel who perform its day-to-day operational functions. This is doubly true of the hospitality industry where service to the public is its prime product. The maintenance of a level of service consistent with the objectives of the Company has been achieved through extensive training programs for employees at all levels. Through these programs, management potential is recognized and developed, providing employees with opportunities for rapid advancement and, at the same time, ensuring the availability of trained personnel to staff present Inns and those being built by the Company in Canada, Europe and the Caribbean. In addition, the Company is supporting college and university students enrolled in Hotel Management Courses through awards recognizing overall proficiency and potential. Many graduates of these courses are now employed by the Company in various capacities.

In spite of world-wide depressed economic conditions which prevailed during 1971, very satisfactory operating results were achieved by the Canadian Inns. The return to more favourable conditions forecast for 1972 promises greater utilization of facilities and continued growth in the profiability of Commonwealth Holiday Inns in Canada.

Caribbean

Raymond R. Yelle, Vice-President

In the short span of four years, Commonwealth Holiday Inns has become one of the leading hoteliers in the islands of the Caribbean. The Company is now operating Inns on the Islands of Antigua, Barbados, Grenada and St. Lucia, with a total of 480 guest bedrooms. Each Inn has been designed and furnished to provide our guests with a high standard of accommodation and cuisine. The recently opened Inns at Grenada and St. Lucia have been well received by the travelling public, and provide the vacationer with an opportunity to combine visits to several islands in one vacation trip — completely confident of the quality that is synonymous with Holiday Inns.

Operating results during 1971 were adversely affected by worldwide economic conditions, however, significant gains in sales revenue were realized during the year as the result of marketing programs established by the Company. Under these programs, emphasis has been placed on group charter business and packaged vacations which include transportation, accommodation and meals. Recently, and as part of the program, more than 300 shareholders of the Company visited the Holiday Inn of St. Lucia for a week.

Currently there are two new Caribbean Holiday Inns under construction — a 64-room Inn on the Island of St. Kitts, scheduled to open in the spring of 1972; and a 253-room Inn at Port of Spain, Trinidad, scheduled to open in 1973. The St. Kitts Holiday Inn, being built by the St. Kitts Tourism Development Company Limited, will offer the finest accommodation on the island. Located on the site of historic Fort Thomas, in the capital city of Basseterre, the Inn provides a spectacular view of the Caribbean Sea and of Mount Nevis, some three miles distant.

The Port of Spain Holiday Inn, being developed jointly by the Government of Trinidad and Tobago and the Company, offers a new dimension to Caribbean hotel design. Featured will be a roof-top revolving restaurant providing a panoramic view of the city and the island. The hotel is ideally situated in downtown Port of Spain and has been designed to serve both the businessman and the many tourists who visit this busy Caribbean city.

More than 600 people are now employed in the operation and development of the Company's Caribbean Inns. To provide these employees with opportunities for advancement, a management training program has been established under which they are obtaining skills qualifying them for middle and top management positions. There are 15 West Indian nationals now participating in this program at various locations in Canada and the West Indies.

In a recent press release, it was announced that the Company has agreed in principle with Commonwealth Development Corporation, a large Crown Corporation of the United Kingdom, to an agreement whereby each Company will transfer its hotels and Inns in the Caribbean area to a company in which each will have an equal interest. The resulting chain of Inns will all be Holiday Inns, and will comprise over 1,000 rooms, when those Inns now under construction are completed. The chain will be managed by your Company for a fee, and arrangements will be made for participation of one or more airlines in the marketing of the Inns. The Company is confident that the increased capacity controlled under this development will lead to more effective promotion and marketing, thus benefiting the tourist industry and employment in the Islands.

Europe

Robert A. Rubinoff, Vice-President

In early 1968, the Company completed an extensive study of potential expansion into the United Kingdom. The need for additional hotel facilities of the type offered by Holiday Inns was clearly apparent. The exceptionally high occupancy levels of existing hotels, particularly in London, the absence of new hotels in other cities and the rapidly growing tourist industry confirmed the excellent prospects for a well-operated chain of Inns.

The Company was granted the right to fifteen franchises in the United Kingdom by Holiday Inns, Inc., and immediately commenced an evaluation of sites offering above-average potential for the successful operation of its Inns. Concurrently, negotiations were successfully conducted under which financing for several of the planned Inns would be obtained from local sources.

The first Holiday Inn in the United Kingdom, with 225 rooms, was built in Plymouth, Devon on a magnificent site overlooking historic Plymouth Hoe. Plymouth is the gateway to the resort areas around the Devon and Cornwall coastlines. This Inn was opened in 1971, and contains many features which will be included in other Inns planned or being built by the Company in the United Kingdom. These include North American sized rooms, indoor swimming pools, roof-top restaurants, sauna baths, television and free underground parking. Presently, the Company has three additional Holiday Inns under construction in England — two in London and one in Bristol. With the completion of these Inns during the winter of 1972-73, the Company will have 1,070 rooms in operation. The London Inns are located on George Street near Marble Arch, and in Swiss Cottage, which offer convenient access to all areas of the city including London's fashionable West End shopping and theatre districts.

The Company has recently acquired sites for two additional Inns to be built in the United Kingdom. One is located near Heathrow Airport in Slough, a city with large industrial developments, and the second is in the city of Newcastle, a large business centre on the northeast coast of England. Both of these Inns are in an advanced stage of planning, and further announcements on their progress will be made in due course.

Expansion into Portugal has been facilitated through an affiliation with InterHotel, a large Portuguese development company. The first project of this association is a 300-room resort Inn now under construction on the Island of Madeira. This luxury Inn, scheduled to open in the fall of 1972, forms part of a large resort complex, consisting of a marina, bridge club, heliport, shopping arcade, cinemas and a health club.

A second Holiday Inn is now under construction in the Algarve, near Faro Airport on the semi-tropical south coast of Portugal. When completed in 1974, this 307-room Inn will be managed by your Company. In addition to the Inn, the resort development will include a golf course, riding stables and a casino.

The expansion of the Company into the growing European market is strengthened by the presence of Holiday Inns, Inc., who have established European Offices in Brussels and have recently opened Inns in England, The Netherlands, Belgium, Germany, Italy and Luxembourg.

Holiday Inns Under Construction

Toronto Civic Square — Ontario
Scheduled to open in spring 1972, this 750-room Inn will be the largest Holiday Inn in the world. The Inn is located adjacent to the Toronto City Hall, one of the most distinctive municipal buildings on the continent. Featured will be a revolving restaurant on the 26th floor, a 400-seat entertainment lounge, large convention facilities, six levels of underground parking, indoor and outdoor swimming pools, saunas and games rooms

Lethbridge — Alberta
This 144-room, 8-storey Inn scheduled to open in early summer 1972 forms part of the Holiday Village complex now under construction in Lethbridge. It will provide a new standard of accommodation for this city, containing large banquet areas, a theme lounge, indoor swimming pool, saunas and games room. Included in the complex are commercial offices, a bank and shopping centre.

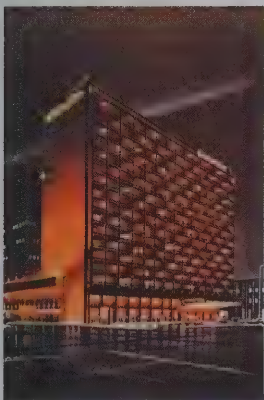
Longueuil — Quebec
Located in the Place Charles Lemoyne Development overlooking the St. Lawrence River and the site of Man and His World, this 17-storey, 220-room Holiday Inn will be the Company's first Inn in the Province of Quebec. Scheduled to open during the summer of 1972, the features of the Inn will include a theme lounge, a 16th floor cocktail lounge, an indoor swimming pool, saunas and games room. Downtown Montreal will be accessable to guests in a matter of minutes by the Metro Transit System.

Inns Planned

Canada
Alberta, Calgary
British Columbia, Vancouver (3)
Saskatchewan, Saskatoon
Ontario, Sault Ste. Marie
Burlington
Belleville
Quebec, Point Claire
Sherbrooke
Quebec, Shawinigan
Quebec City

Caribbean
Barbados Seawell
Guadaloupe

United Kingdom
Slough
Newcastle



Winnipeg — Manitoba
When completed in the spring of 1973, this will be the first Holiday Inn in the Province of Manitoba. Located in downtown Winnipeg, the 17-storey, 411-room Inn will form part of a $30 million one block re-development program, which includes a new convention centre, apartment buildings and office towers. Amenities of the Inn include large banquet facilities, an entertainment lounge, indoor and outdoor swimming pools, saunas, games rooms and underground parking.

St. Kitts — West Indies
Scheduled to open in April, 1972, this 64-room Holiday Inn will provide the finest tourist and commercial accommodation on the Island. The Inn is situated 10 minutes from the airport on the historic site of Fort Thomas in the capital city of Basseterre, providing an unparalleled view of Mount Nevis. The Inn will have an olympic sized swimming pool, tennis courts, cocktail lounge and dining room.

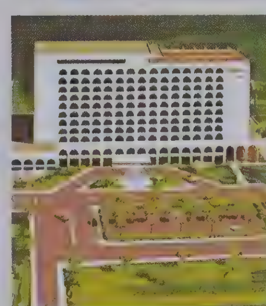
Port of Spain — Trinidad
Located in downtown Port of Spain, this 255-room Caribbean Holiday Inn has been designed to accommodate both the businessman and the tourist. The Inn is scheduled to open in early 1973, and will have a revolving roof-top restaurant and lounge, state suites, a large entertainment lounge, poolside dining, banquet facilities and boutiques.

Marble Arch – London, England
Now in the advanced stage of construction, this new 245-room Inn is located on George Street, a short distance from Hyde Park. Features include an indoor swimming pool, saunas, large banquet rooms, and underground parking.The Inn is scheduled to open in early 1973.

Swiss Cottage–London, England
Also nearing completion is the 300-room Swiss Cottage Holiday Inns located in a residential setting in north London. Penthouse suites, large banquet rooms, an indoor swimming pool, underground parking, and saunas are included in the features of the Inn. Guests will have easy access to all parts of the city using the famed London Subway system.

Bristol — England
This 300-room Holiday Inn now under construction is centrally located in the city of Bristol. It forms part of a large development which includes offices, shopping facilities and a multi-storey car park. The Inn will offer an indoor swimming pool opening to a landscaped terrace, luxury suites, an entertainment lounge, saunas and free under-cover parking.

Madeira — Portugal
The 300-room Holiday Inn of Madeira, when completed in mid-1972, will provide luxury resort accommodation to the many tourists who visit this well-known Portuguese island. Located a short drive from the airport, at scenic Discovery Bay, the Inn will feature a roof-top restaurant and night club, olympic sized indoor and outdoor swimming pools, a heliport, a large marina and a health club. A large vacation complex of condominium apartments, villas and a shopping arcade form part of the development.



Algarve — Portugal
Construction has recently commenced on the second of the Company's Portuguese Inns. Scheduled to open in 1974, this 307-room Inn has a beach front location on the Algarve, often compared to the Riviera for its excellent climate. In addition to the Holiday Inn, the development will have a casino, a golf course and riding stables.

Grand Island — Niagara, New York State
Located on Grand Island on the outskirts of Buffalo, New York, just minutes from Niagara Falls, this new 270-room Holiday Inn will form part of a large recreation and commercial complex. Included in the development are a championship 18-hole golf course and a marina. The 5-storey hotel has been designed to provide a complete convention facility with a theme lounge, shopping boutiques, indoor and outdoor swimming pools, saunas and other recreational amenities.

COMMONWEALTH HOLIDAY INNS OF CANADA LIMITED

and its subsidiaries

EIGHT YEAR FINANCIAL REVIEW

	1971	1970
RESULTS FOR THE YEAR		
Sales	**$43,023,663**	$33,258,870
Earnings Before Taxes on Income	**3,351,265**	2,804,927
Provision for Income Taxes	**1,625,000**	1,475,000
Net Earnings for the Year*	**1,708,965**	1,276,871
Cash Flow from Operations**	**5,499,835**	4,620,120
Depreciation and Amortization	**2,183,758**	1,850,381
Additions to Plant and Equipment***	**18,460,338**	10,953,791
YEAR END POSITION		
Working Capital	**$ 1,996,390**	$ 715,779
Fixed Assets at Cost***	**58,823,319**	43,803,822
Total Assets	**66,242,716**	49,571,132
Long Term Debt	**38,725,915**	32,332,548
Shareholders' Equity	**14,544,365**	8,065,857
GENERAL STATISTICS		
Preference Shares Outstanding	—	4,000
Common Shares — Outstanding	**5,305,156**	2,427,013
— Reserved for Conversion and Options	**517,401**	3,964,237
— Total Outstanding and Reserved	**5,822,557**	6,391,250
Inns in Operation	**34**	27
Rooms in Operation	**5,754**	4,164

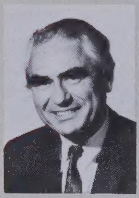
*After dividends on preference shares.

**Cash flow consists of net earnings before dividends on preference shares plus non cash charges for depreciation, amortization and deferred taxes.

***Includes construction in progress and unamortized cost of major renovations (See note 2 to the Financial Statements).

1969	1968	1967	1966	1965	1964
$25,431,843	$17,654,355	$12,453,855	$ 7,062,421	$ 3,567,315	$ 2,650,583
2,509,597	1,336,659	917,178	226,704	105,731	(113,057)
1,333,000	695,000	481,300	122,000	55,000	(56,900)
1,122,160	586,409	405,997	112,243	50,731	(56,157)
3,876,526	2,374,762	1,726,137	691,114	383,797	145,634
1,378,633	1,038,103	777,813	477,871	277,066	270,791
10,996,052	7,652,687	3,224,369	5,053,238	3,081,018	550,000
$ 183,514	$ 592,003	($ 963,751)	($ 421,139)	($ 1,447,018)	($ 2,052,035)
32,918,085	25,025,112	17,273,501	13,967,198	8,965,283	6,009,336
36,030,849	27,051,643	17,856,057	15,596,668	10,501,956	6,729,488
22,593,209	21,545,396	13,775,714	12,113,550	7,462,051	3,895,668
6,783,473	1,932,481	1,372,144	1,015,377	52,634	1,903
4,150	4,250	4,250	4,250	—	—
2,411,488	2,050,063	2,050,000	2,050,000	2,000,000	2,000,000
3,959,137	3,949,937	675,000	675,000	—	—
6,370,625	6,000,000	2,725,000	2,725,000	2,000,000	2,000,000
23	17	14	10	5	3
3,499	2,558	2,166	1,441	639	440

Associated Innkeepers Supply Company



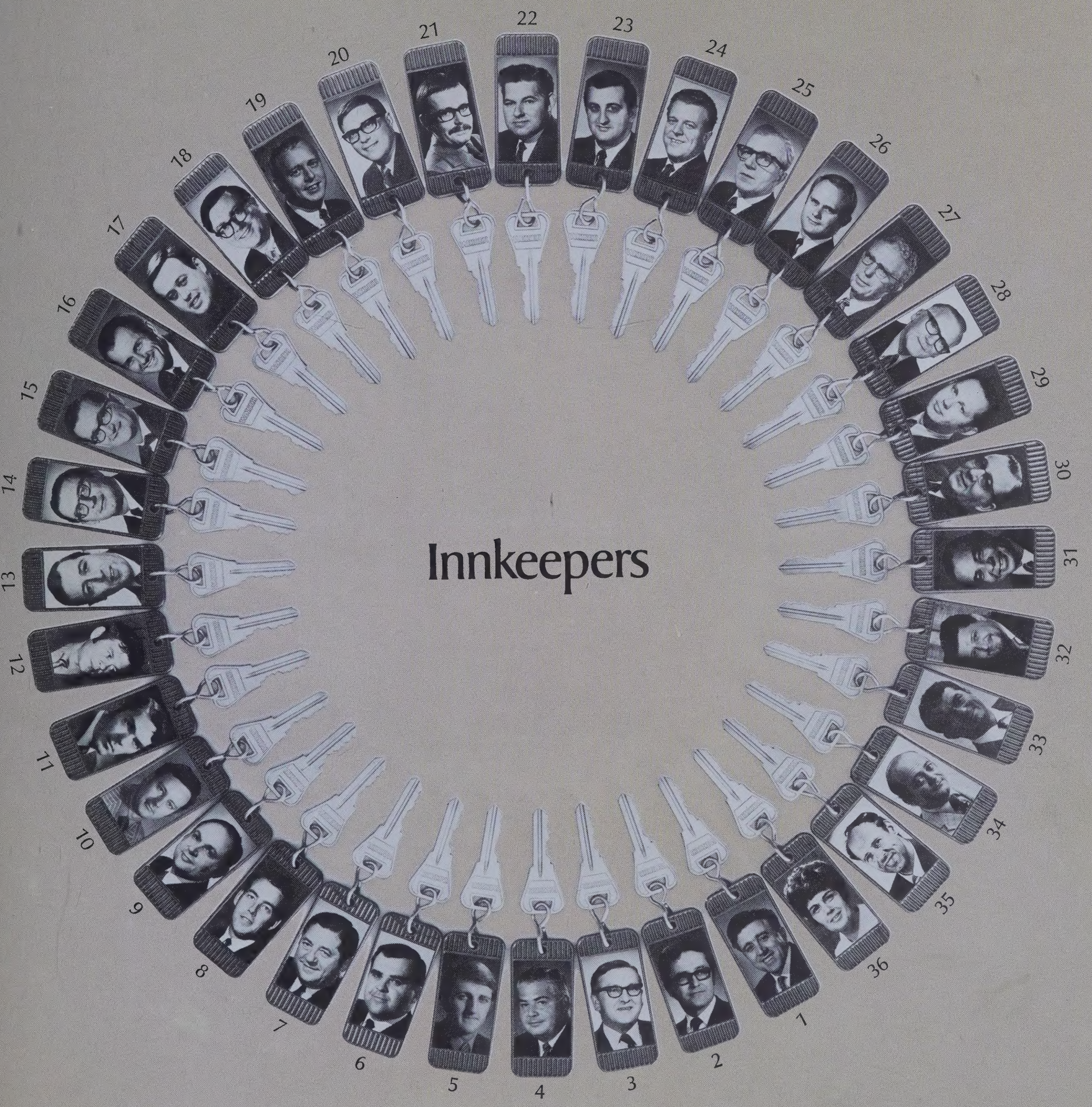
Philip Eprile, President

This division of the Company, formed in 1965 to design and equip new Inns and to carry out renovation programs for existing Inns, has grown to become the largest hotel design and planning firm in Canada. The volume of sales, including internal sales, now exceeds $7,000,000 annually, and clients comprise governments at all levels, institutional builders, commercial developers and other hotel chains. The rapid expansion of Holiday Inns operated by the Company continues to provide the major outlet for design services and sales, but a substantial and increasing amount of contract business has been generated by Philip Eprile Associates Limited. This Company is a wholly owned subsidiary of Commonwealth Holiday Inns of Canada Limited, and is located in the same premises as Associated Innkeepers Supply Company. In the past year, a considerable volume of outside business has been generated using existing design services and buying power, thus providing an additional profit centre for the parent company.

In keeping with the policy of Holiday Inns to provide its guests with a high standard of accommodation, a program of continued research and development is maintained in our new premises situated near the new Holiday Inn at Toronto International Airport. Various sized room modules have been constructed in the building, which can be completely furnished and equipped, providing the Company and clients of the division alike with the opportunity to evaluate and approve design concepts, decor items, and costs while the project is in the planning stage of development. A large sample library of decor items and materials is maintained in our premises, and a well-stocked warehouse of hotel operating supplies is available for serving Company properties and outside contract sales.

Since our chain of Inns has developed on an international scale, Associated Innkeepers Supply Company is now operating in many countries, so that its designers and purchasing agents have access to new materials and products, many of which have been incorporated into Commonwealth Holiday Inns of Canada Limited properties. For example, the very successful Flanagan's Lounges of Don Valley Toronto, Sudbury and London Downtown contain decorative items and artifacts purchased in the United Kingdom, while many of our public spaces contain unusual and interesting materials purchased in Spain, Portugal and other European countries. In the same way, our Inns in the Caribbean and Europe have been designed to retain the local idiom, while still providing the amenities Holiday Inn guests have come to enjoy throughout the chain.

Innkeepers



1. Anthony Miele
2. Edward Conrad
3. John Brezsnyak
4. Ed Schwannecke
5. Gordon Langford
6. Roger Croxall
7. Isaac Siskind
8. Douglas Escott
9. Bernhard Kainer
10. Martin Larkin
11. N. Thompson-Wood
12. Peter Pappoulas
13. Irvine Phillips
14. Joseph Slomka
15. Rudy Berger
16. Bert Bornhoeft
17. Erwin Rieck
18. Gordon McKay
19. Peter Vandenberg
20. Robert Moore
21. Terrance O'Brien
22. Derek Toms
23. Spencer Brown
24. G. Leyendeckers
25. Crandall Lockhart
26. Guy Warnery
27. Earland Wilson
28. Stanley Collins
29. John Terryah
30. Donald MacAfee
31. Cyril Clarke
32. Claude Lefebvre
33. Dragan Vitkovic
34. Carsten Flindt
35. John Vinkenbrink
36. Mrs. Monica Andersen


Holiday Inn
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